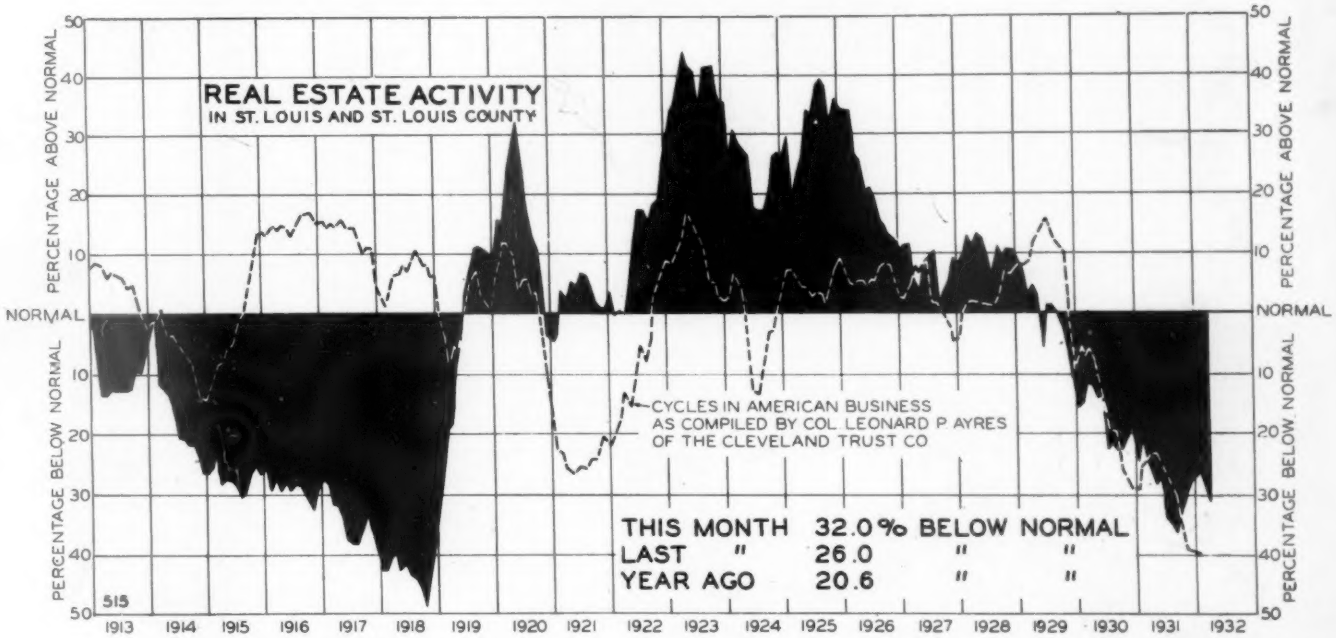
APRIL, 1932

The Real Estate ANALYST

SAINT LOUIS EDITION



MARCH showed no improvement in the real estate situation, nor was any expected. The unfavorable factors still are dominant and the chance of any immediate recovery is slight. Before any permanent improvement can take place in real estate activity, real estate must become profitable - or a large number of people must believe that it will become profitable shortly. (Real estate is not profitable today.) The present net earnings, largely due to vacancies and concessions, are not sufficient to pay an adequate return on present prices.

There are four ways in which the percentage of net earnings on real estate may be increased: 1st, by a decrease in vacancies and concessions; 2nd, by an increase in unit rentals; 3rd, by a decrease in operating costs; 4th, by a reduction of the valuation.

1st - Vacancies have increased with the severity of the depression, due to the doubling up of families and the decrease in marriages. At the present time they are probably remaining fairly constant. Very few new quarters have been built in the last few years and the demolition of obsolete buildings by the city and private own-

ers has actually produced a sizeable loss in the total number of living quarters in the city. As soon as recovery in general business takes place, this shortage will become apparent. Until such time very little improvement can be expected.

2nd - Unit rentals of investment properties declined further during March, as shown on page 13, and until the depression moderates there is slight hope for any increase in these rentals.

3rd - Unit operating costs are falling, but the total cost of operating investment properties has shown no reduction, due to the excessive demands which tenants have been able to enforce. When vacancies are absorbed, however, there should be considerable saving in operation.

4th - Real estate purchased in a boom market is quite frequently carried at its inflated value long after a portion of that value has melted away. Until its owner is willing to write off a portion if its inflated cost it cannot show a profit. Quite frequently this reduction in valuation comes through change of ownership, due to foreclosure or distress sale.

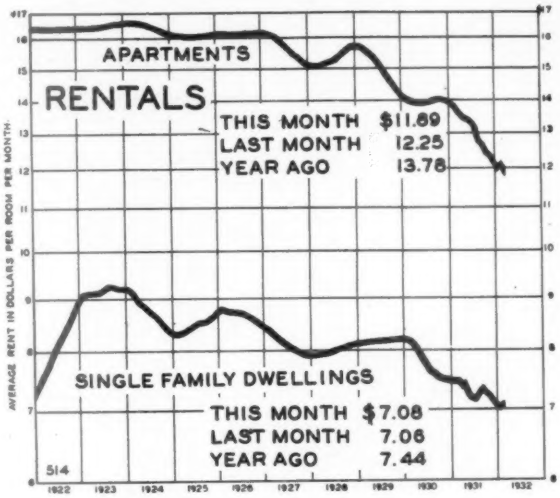
We believe that a marked increase in real estate activity will not occur until one or more of the preceding factors have made real estate again an attractive investment. The favorable and unfavorable factors at the present time are listed below.

Favorable

1. Ten percent cut in real estate assessments just announced by State Board of Equalization in city and five percent in county.
2. Stiffening of single family rentals, showing that even the reduced depression demand has about caught up with the available supply.
3. Better tone to general business, with fewer bank failures and less hoarding of money.

Unfavorable

1. Apartment rentals still decreasing.
2. Values are still dropping.
3. Foreclosures higher than ever before and still increasing.
4. Very little credit available for financing or refinancing real estate.



APARTMENT rentals continued their drop during March. The average apartment rental for the month was $11.89 per room without deductions for concessions. Since the peak in 1921, without this deduction, apartment rentals have declined 29.8%, with it 35.9% or slightly more than one-third.

Single dwelling rentals are showing more stability at the present time, indicating that even the reduced depression demand has caught up with the supply. During March the single family dwelling rentals averaged $7.08 per room in comparison with $7.06 for February. This is a decline of 23.1% from the peak.

The May issue of The Real Estate Analyst will be devoted largely to a study of rentals in Greater Saint Louis from the Civil War to the present.

THE chart to the left shows an index, corrected for seasonal fluctuation, of the number of new family accommodations provided for by all building permits issued monthly since 1922. March set a new low for this period. Residential building, however, is still above the low period of the war depression and the year immediately following.

The very small amount of building being done will speed recovery, as we are now accumulating a potential shortage which will become apparent when economic conditions enable doubled up families to spread out and delayed marriages to take place.

THE chart to the left shows the number of marriages for each 10,000 males 21 years of age and over. This chart has been adjusted for seasonal fluctuation.

While marriages showed some pickup over the preceding month, they are continuing at an extremely low level, increasing the accumulated shortage of more than 13,000 since 1924.

If past experience repeats itself, as soon as the present depression is over the number of marriages will increase, rapidly swinging to a number far larger than usual. This, together with the spreading out of "doubled up families" will help to absorb vacancies quickly. It probably helps to account for the rapid rise in activity at the beginning of each new cycle noted in the description of general real estate activity.

THE chart above shows a study from 1868 to the present of the number of real estate mortgages foreclosed in Greater Saint Louis for each 100,000 families in comparison with the number of voluntary transfers for each 10,000 families and the value of the dollar.

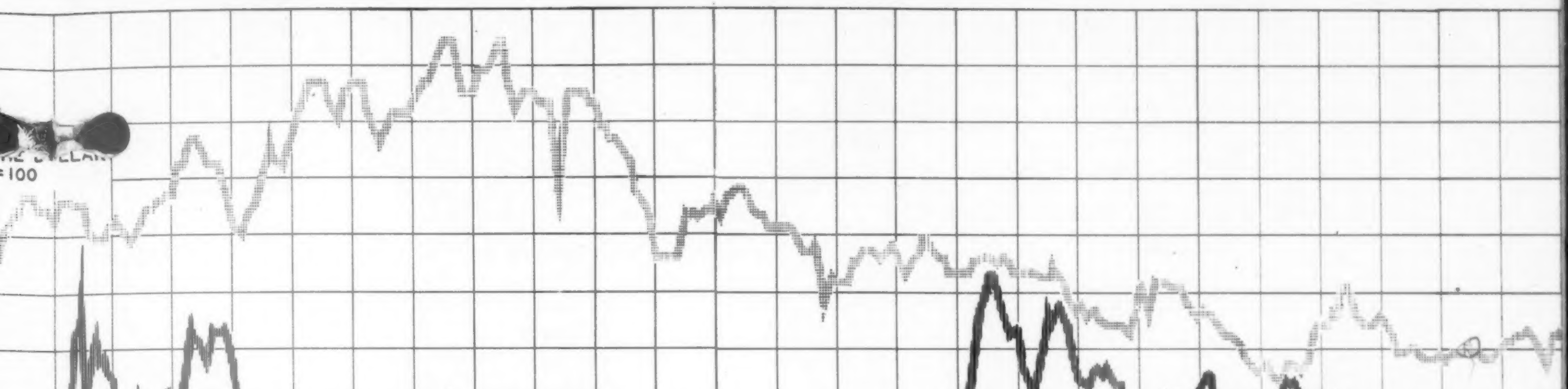
The solid black line shows foreclosures; the shaded line, voluntary transfers and the gray line the value of the dollar. It will immediately be noticed by following the black foreclosure line across the page that there have been four periods in the last 64 years when foreclosures were high. As would be expected, these periods have come when voluntary transfers, as shown by the shaded line, were low.

It is interesting to note that these heavy foreclosure periods have come in regular swells and that whenever foreclosures have gone above 25 per 100,000 families for more than an isolated month after a period in which they had been running lower, it has formed a certain indication of 5 to 10 years of heavier foreclosures ahead. Had these figures been available in 1926 and 1927 the increase in the foreclosure line at that time, with the drop in the abnormally high transfer line, would have immediately indicated serious trouble ahead.

There are many causes of foreclosures; the principal ones fall into the following classes:

I. INFLATION OF VALUE: In the first part of every boom period the ownership of real estate becomes quite profitable. This attracts buyers. The multitude of buyers increases the demand, while it takes some time to increase the supply of buildings. Accordingly the price rises and an orgy of speculation begins. Purchasers lose perspective; forget that booms are periodic and are short lived, and buy for resale without regard to average earning power of real estate in a normal market.

II. OVERFINANCING: Mortgage interests are influenced by boom prices, money is plentiful, and loans are based on the speculative prices which real

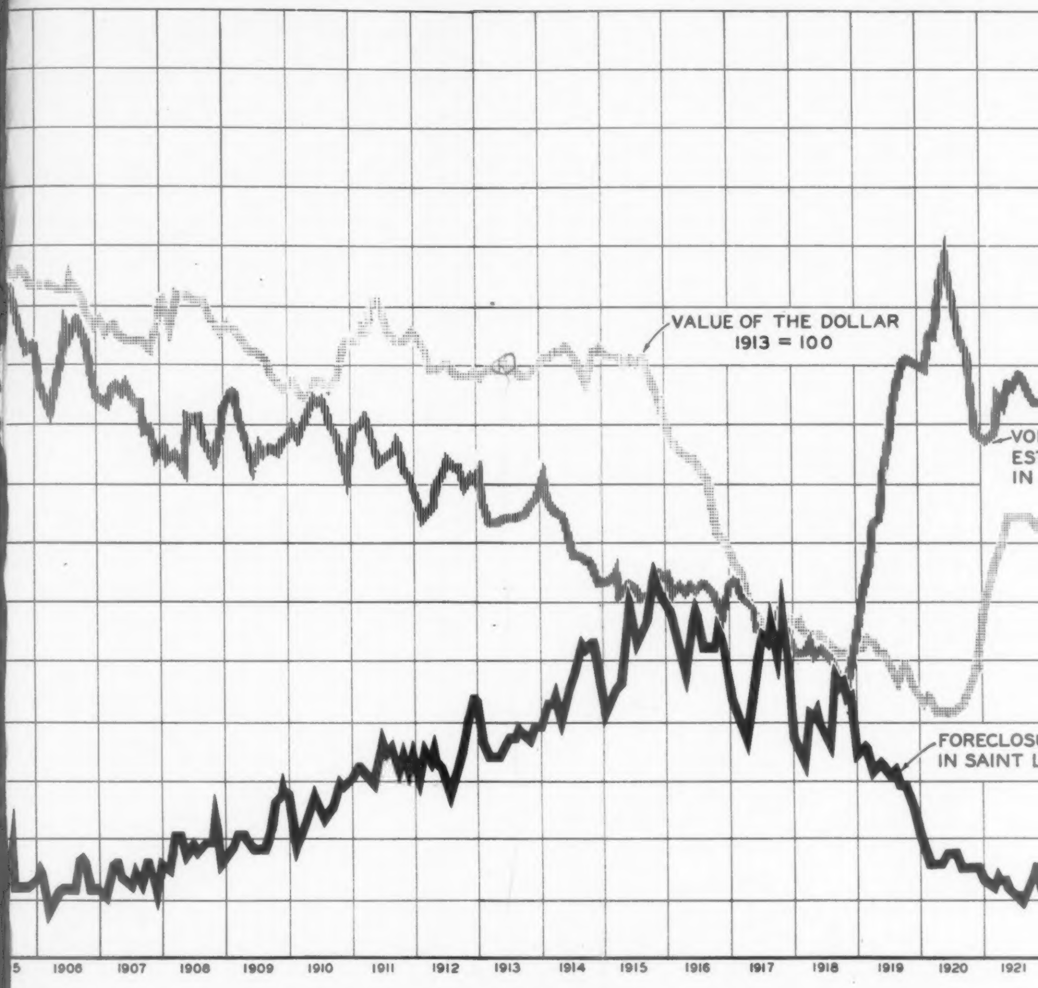


estate is bringing with little vision of what the future will bring.

III. OVERBUILDING: Until the building of new property, now made profitable by high values, catches up and passes the demand, all apparently goes well. Large investors find that buying and selling on margin, with as large a deed of trust as possible on each piece of property, brings large profits on the amount invested. People of smaller means, seeing the profits being made, invest their savings in small equities and endeavor to resell at a profit, but the supply of improved real estate has now passed the demand and vacancies are becoming more numerous, making serious inroads in the earnings already too small to justify the inflated prices for which property has been selling. Competition for tenants lowers rentals still further and a stage is finally reached when real estate cannot be profitably sold. Properties are offered to indifferent buyers and values start to fall. At the first decrease in values the small margin-owned properties and those in weak financial ownership are foreclosed. Inflated values continue to fall; buyers are scarce; equities in the overfinanced properties melt away and foreclosures take over more and more properties.

IV. INACTIVITY: If real estate were liquid at all times, in a period of depression an owner of several pieces of real estate could sell some of his parcels to increase his equity in the remainder. As conditions actually exist, when real estate activity subsides and property becomes frozen, one piece cannot be sacrificed to save another. An owner may have a substantial fortune wiped out through foreclosure because small equities in many properties cannot be consolidated to strengthen his position. The absence of liquidity in the last half of each real estate cycle is one of the outstanding causes of high foreclosure peaks.

V. INCREASE IN IMMERGENCY TAXATION: In the first part of every major period of distress and unemployment an effort is made to provide employment on public work. This takes the form in cities of street openings, widenings and



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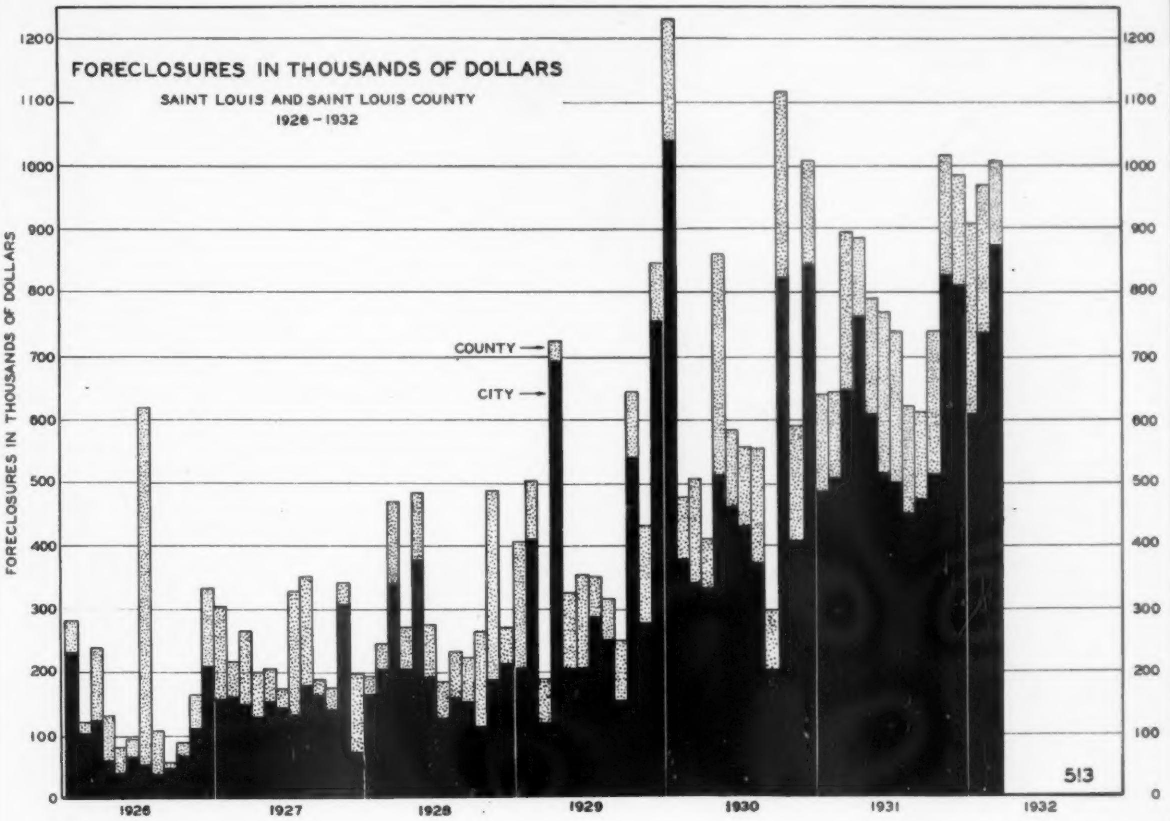
of the cost of which is passed back to the owner of real orm of special tax bills which, due to the depression, he sition to meet. To pay these bills he must "freeze" his with his real estate already frozen and in danger.

NEMPLOYMENT AND TIGHT MONEY: Many real equities in smaller lost through unemployment and the inability to refinance in ression.

INCREASE IN THE VALUE OF THE DOLLAR: When we can buy more ar than we could two years ago we generally describe the ng that food has dropped in price. If, however, we find hing has happened simultaneously in the prices of clothing, rents, we may begin to question the logic of our descrip- s the relationship between the value of any commodity and ney. When the price of a commodity changes it may be due peculiarity in the commodity itself or it may be due to a alue of money.

st prices change in the same direction at the same time, a strong suspicion that what has really happened is that oney, not commodities, has changed. If money changes in ppear to change in the opposite direction. The last two ple, have seen a steady increase in the value of gold which what we generally refer to as a drop in prices. The light he chart shows the variation in the value of gold, or in the value of money (which is practically the same thing as on the gold standard) from 1868 to the present. It will be chart that the dollar today is just a little above the 1913 e borrowed a dollar for a ten year period in 1922, he bor- which in comparison with the present would buy only 75% as ties or service. (continued on page 18)



The height of the vertical bars in the chart above shows the monthly total in dollars of mortgages foreclosed in Saint Louis and Saint Louis County from January, 1926, to April, 1932. The black portion of each bar represents the total in the city and the gray portion the total in the county. Prior to 1926 foreclosures were at a minimum as can be seen from the chart on page 16 but starting in 1926 and 1927 a steady upward movement began. During the past five months the sum total of deeds of trust foreclosed in Saint Louis and Saint Louis County has averaged almost $1,000,000 per month. While these figures are alarmingly high, it should be kept in mind that the total value of real estate in the city alone is somewhere between one billion, eight hundred million and two billion dollars.

The relationship between the city and county in the number of foreclosures and the dollar total is quite interesting.

In 1931 the county accounted for 40.7 percent of the number of foreclosures but for only 24.3 percent of the total value in dollars. During the first three months of 1932 the percentages have been almost the same as for the year 1931 being 40.4 percent and 24.7 percent respectively.

During 1931 the average consideration in the mortgages foreclosed in the city was $4004 and in the county $1819.

In addition to having paid his interest during the ten year period he must now repay one third more in purchasing power than he borrowed. The dollar he borrowed in 1922 looked like this 

in the terms of what it would buy. The dollar he must repay looks like this 

. For every $3.00 worth of value he borrowed then, he must repay $4.00 worth of value now. A sudden increase in the value of the dollar coming after a period in which for a number of years there has been no radical change, always plays havoc with debts and increases foreclosures. Money might be likened to a rubber tape measure. There is no assurance that the "yard" one borrows now will be of the same length as the "yard" one must repay several years from now.

The value of a piece of property in 1927 may have been equivalent to the value of ten thousand 1927 dollars. Five years later in 1932 its value may be equivalent to seventy-five hundred 1932 dollars, each one of which has a far greater value than it had in 1927. If this property were owned clear and were sold now, the seller could buy as much with the seventy-five hundred 1932 dollars as he could have bought in 1927 with the ten thousand 1927 dollars. But suppose, however, that in 1927 the owner of this property placed a mortgage on it for 60% of its value to run straight for five years. He borrowed six thousand 1927 dollars and he must repay six thousand 1932 dollars. Since the property is worth only seventy-five hundred 1932 dollars his equity has dropped from 40% to 15%. This illustration is quite typical of what has actually happened in many cases, reducing equities to the point where foreclosures are inevitable.

It will be noticed on the chart that three of the four heavy foreclosure periods we have had since the Civil War have been accompanied by sudden increases in the value of the dollar following a period in which the value of the dollar was fairly stable. Unless values are on a given level for a long enough period for mortgages to become adjusted to that level, a sudden increase in the value of the dollar has no effect on foreclosures. A good example of this is the sudden increase shown by the gray line in 1920 and 1921 which had no effect on foreclosures.

"If you would forecast the future, study the past"

Confucius

VALUE DEPENDS ON USE

In 1868 three of the leading real estate concerns of Saint Louis, E. G. Obear & Co., H. W. Leffingwell & Co., and Grether & Boeck, appraised for the city the cash value per front foot of 97 different locations. These appraisals are given below.

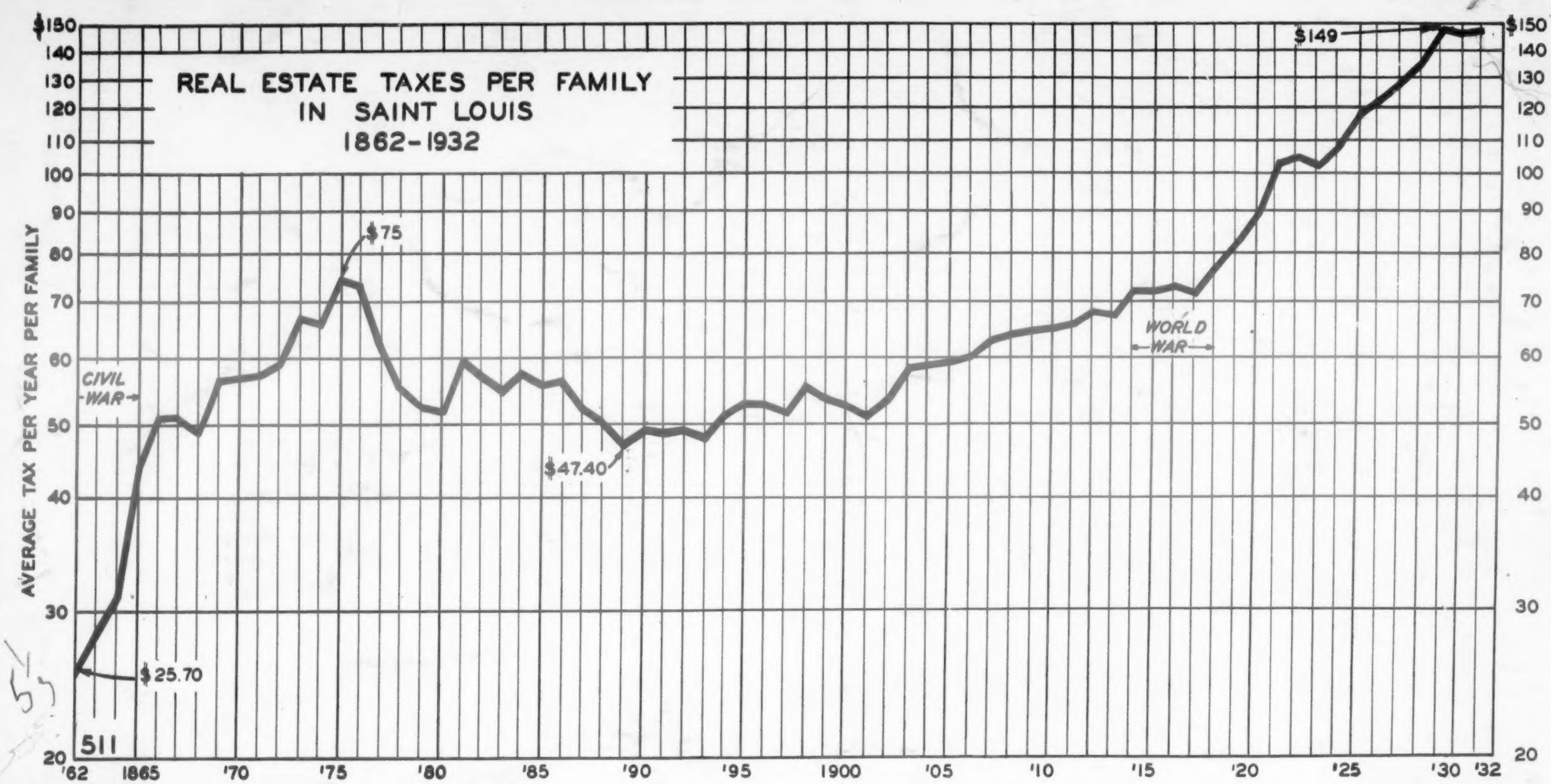
When these appraisals were made, Saint Louis had a population of 280,000 and business enterprise was spread along the river. First, Second, Third, Fourth and Broadway were the streets of intense use and rentals and, therefore, of higher values. West of Broadway there was a marked falling off from these higher values on the north and south streets and more sustaining values on the principal east and west arteries, namely, Franklin, Washington, Locust, Olive and Market streets.

When these appraisals were made, real estate activity was approximately ten percent above normal (see chart in March issue) and, no doubt, the values shown are slightly above the normal. While the above figures are interesting to anyone who is concerned in real estate, they are highly instructive in showing the part use plays in determining the value of real estate and in indicating the shifts in value that can occur.

The incorrectness of the idea that over a long period of time land always increases in value, is revealed by a study of these appraised values. Land gets its value from either the actual use or the potential use to which it can be put, or a combination of these two. Potential use gives the speculative value to real estate. If the anticipation of potential use is erroneous, or if the time when the potential use will be effective is misjudged, considerable loss will be suffered by either the buyer or seller, as the case may be. Taxes, when based, for the most part, on values determined from potential use, are apt to be highly unfair. It is quite interesting to note that land values in 1868 for residential use are practically the same as the values for this use today. - Not so.

Side	Street	Between	Depth Feet	Appraised cash value per front foot.
	Levee	Plum & Poplar	96.0	$185.00
	Levee	Market & Chestnut	64.3	700.00
	Levee	Wash & Carr	129.6	235.00
West	First	Plum & Poplar	162.6	225.00
West	First	Market & Chestnut	139.6	1135.00
West	First	Franklin & Carr	141.5	350.00
West	Second	Merchant & Convent	160.0	125.00
West	Second	Plum & Poplar	160.0	200.00
West	Second	Market & Chestnut	153.0	1000.00
West	Second	Locust & Pine	152.0	1450.00
West	Second	Franklin & Carr	102.0	185.00
West	Second	Cass & Florida	190.0	95.00
West	Third	Lesperance & Geyer	140.0	70.00
West	Third	Barry & Park	140.0	95.00
West	Third	Cedar & Plum	155.0	185.00
West	Third	Walnut & Market	160.0	600.00
West	Third	Locust & Vine	171.0	985.00
West	Third	Wash & Carr	123.0	435.00
West	Broadway	O'Fallon & Cass	90.0	265.00
West	Broadway	Madison & Clinton	150.0	155.00
West	Broadway	Buchanan & Angelrodt	150.0	70.00
West	Broadway	Gratiot & Cerre	128.0	300.00
East	Broadway	Walnut & Market	127.6	1250.00
East	Broadway	Olive & Locust	136.0	1900.00
West	Broadway	Morgan & Franklin	140.0	700.00
East	Broadway	Wash & Carr	109.0	365.00
West	Broadway	Lynch & Sidney	140.0	75.00
West	Broadway	Allen & Geyer	148.0	105.00
West	Broadway	Barry & Park	140.0	235.00
East	Fourth	Convent & Chouteau	142.0	315.00
East	Fourth	Plum & Poplar	150.0	360.00
East	Fourth	Market & Chestnut	150.0	1600.00
East	Fourth	Olive & Locust	105.0	1935.00
East	Sixth	Poplar & Spruce	127.0	300.00
East	Sixth	Market & Chestnut	135.0	715.00
East	Sixth	Morgan & Franklin	127.0	600.00
East	Sixth	Biddle & O'Fallon	125.0	130.00
East	Seventh	Arsenal & Pestalozzi	117.0	50.00
East	Seventh	Geyer & Lafayette	140.0	90.00
East	Seventh	Poplar & Spruce	127.0	365.00
East	Seventh	Locust & St. Charles	75.0	285.00
East	Seventh	Franklin & Wash	127.0	210.00
East	Seventh	Mullanphy & Howard	125.0	75.00
South	Market	Second & Third	110.0	635.00
South	Market	Sixth & Seventh	138.0	700.00
South	Olive	Ninth & Tenth	109.0	400.00
South	Olive	15th & 16th	109.0	230.00
North	Olive	23rd & Jefferson	107.0	125.00
North	Olive	Garrison & Compton	134.0	80.00

Side	Street	Between	Depth Feet	Appraised cash value per front foot
South	Washington	Broadway & Sixth	75.0	1000.00
South	Washington	Eighth & Ninth	70.0	500.00
South	Washington	13th & 14th	150.0	300.00
South	Washington	Jefferson & Beaumont	134.0	125.00
South	Washington	Leonard & Channing	134.0	55.00
North	Franklin	Broadway & Sixth	138.0	515.00
South	Franklin	Tenth & Eleventh	107.0	350.00
South	Franklin	18th & 19th	144.0	140.00
South	Franklin	Jefferson & Beaumont	146.0	100.00
South	Easton	Compton & Cardinal	140.0	60.00
North	Cass	12th & 13th	113.0	90.00
South	Cass	20th & 21st	130.0	25.00
North	Cass	Webster & Bacon	120.0	30.00
North	Carr	13th & 14th	155.0	110.00
North	Carr	23rd & 24th	152.0	75.00
South	Wash	19th & 20th	153.0	75.00
South	Wash	15th & 16th	155.0	100.00
South	Morgan	Garrison & Cardinal	134.0	115.00
South	Morgan	18th & 19th	144.0	125.00
South	Locust	15th & 16th	155.0	300.00
North	Pine	18th & 19th	109.0	120.00
South	Chestnut	Jefferson & Beaumont	80.0	80.00
South	Clark	Jefferson & Leffingwell	106.0	75.00
South	Clark	14th & 15th	150.0	135.00
South	Chouteau	Grattan & Dolman	135.0	130.00
South	Chouteau	11th & 12th	164.0	150.00
South	Park	Louisiana & Theresa	128.0	125.00
North	Lafayette	Louisiana & Theresa	136.0	65.00
North	Lafayette	18th & Mississippi	122.0	55.00
North	Laclede	Compton & Channing	128.0	30.00
West	Grand	Fairview & Potomac	140.0	15.00
East	Grand	Victor & Sidney	122.0	40.00
East	Grand	N.Market & Cote Brilliante	120.0	40.00
North	Barton	19th & 20th	111.0	40.00
South	Barton	12th & 13th	112.0	50.00
South	Warren	Ninth & Tenth	80.0	50.00
South	Salisbury	20th & 21st	90.0	35.00
South	Bremen	14th & Blair	172.0	25.00
South	Geyer	Tenth & Menard	140.0	35.00
East	Eleventh	Ann & Russell	123.0	35.00
East	Twelfth	Lafayette & Soulard	94.0	40.00
East	Eighteenth	LaSalle & Hickory	127.0	50.00
East	Grattan	Park & Hickory	130.0	65.00
West	St. Ange	Chouteau & Hickory	127.0	130.00
North	Stoddard	Leffingwell & Glasgow	118.0	50.00
East	Mississippi	Park & Kennett	130.0	100.00
North	Chambers	Blair & 14th	112.0	50.00
South	Monroe	13th & 14th	112.0	40.00



THIS chart shows the variation in the average real estate tax per family from 1862 to the present. It will be noted that during the Civil War and in the period immediately following, the average tax increased from $25.70 per family to $75.00, or 171%. As long as the post-Civil War boom continued, all went well, but as the great panic which started in 1873 got well under way, real estate activity ceased, foreclosures started mounting (see chart on page 14) and a situation developed very similar to the one in which we find ourselves today. Popular clamor called for a reduction in taxes which resulted in a drop of 31% from the peak in five years. The "value of the dollar" line on page 14 shows that during this period the purchasing power of money was increasing rapidly, making the reduction in taxes easier than it otherwise would have been. However, this increase in purchasing power came to an end about the middle of 1879 and during the latter part of that year and the early part of 1880 the value of the dollar decreased rapidly. This immediately reversed the drop in taxes, but not until the dollar started increasing again, i.e., prices started falling, did the taxes again start downward.

What can be expected in the way of real estate tax reductions in the near future? Reductions can be brought about in two ways:

1st - The cost of government can be reduced. With the 10% reduction in assessed valuation just ordered by the State Board of Equalization, together with the tax delinquency experienced at the present time, the city's budget must necessarily be reduced almost 20% for the coming year, if it is to be balanced. The value of the dollar has been increasing rapidly since 1929, (see page 16), the same condition which made it possible to reduce the cost of government in 1876. The dollar will now buy one-third more than it would several years ago. If the city will take advantage of this fact, as it will in all probability be forced to do by public pressure, the budget can be balanced at the new price level.

2nd - A portion of the burden of taxation may be shifted from real estate to other sources, such as local sales taxes, etc. If business stages a rapid recovery, this shifting of taxes will, undoubtedly, take place. If the recovery is very slow, the next few years will show an unusual reduction, not only in real estate but in the actual cost of government as well.

We believe it entirely within the range of possibility that, within the next four or five years, the reduction in real estate taxes will approximate the reduction after the post-Civil War boom.